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AROUND THE WORLD

U.S., Japan reject carbon dioxide limits

■ **NOORDWIJK ANN ZEE, Netherlands** — The United States and Japan refused Monday to accept strong measures on curbing the release of carbon dioxide into the atmosphere. Attending a 70-nation conference on global warming, both countries, two of the world's most industrialized, said they would not endorse a commitment to control emission of carbon dioxide by the year 2000. Experts say that such emissions are a major cause of the warming of the atmosphere, known as the "greenhouse effect."

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Last Gasp for Bush Clean Air Reforms

By ROBERT W. HAHN

President Bush sent Congress a clean air bill this summer that contained two innovative and controversial reforms. Both would have led to significant reductions in air pollution while, in the president's words, "harnessing the power of the marketplace." One of those reforms has already been killed on Capitol Hill. The other is in serious danger.

The president's approach moves beyond traditional "command-and-control" regulations, which mandate particular pollution control devices such as scrubbers for power plants. Instead, business and consumers would decide for themselves how best to achieve emissions reductions, so long as they met federal standards. For example, to reduce auto pollution, the president's program would allow car makers to trade emission reductions across vehicle categories and among manufacturers. If a manufacturer produced a car that polluted less than the federal standard, it would have a valuable emission credit, which it could sell or use on another vehicle. Auto makers would have an incentive to try alternatives to the gasoline powered engine, such as methanol.

A similar arrangement would govern the emissions that have been tied to acid rain. The president's bill calls for annual emissions reductions of 10 million tons of sulfur dioxide and 2 million tons of nitrogen oxides by the year 2000. The flexibility it allows firms in meeting these goals will save the economy at least \$13 billion.

These innovative reforms would build on two more limited programs pioneered by the Environmental Protection Agency in the late '70s and '80s. The first, an emissions trading program aimed at reducing pollution in areas that exceed federal standards, has resulted in billions of dollars of cost savings for consumers, ratepayers, and shareholders without sacrificing environmental quality. The second, a flexible program for phasing out lead in gasoline, resulted in savings of over \$200

million annually while eliminating a significant health risk.

Despite these successes, flexible approaches have been viewed as sacrilege by virtually all environmental groups, with the recent exception of the Environmental Defense Fund. Congress too remains distrustful of using markets to solve environmental problems. Markets may improve the environment and save money, but they also reduce the ability of bureaucrats and congressmen to decide how and where resources will be spent.

Rep. Henry Waxman (D., Calif.), Chairman of the Subcommittee on Health and the Environment, helped engineer the demise of the vehicle emissions trading program. Mr. Waxman would rather stipulate the measures that must be taken: reduced tailpipe emissions, sturdier catalysts and other gadgets, even though these contraptions are unnecessarily expensive—EPA estimates that the tailpipe controls alone will cost an additional \$600 per car—and discourage creative thinking about alternative engine designs and fuels. Mr. Waxman also complained that a flexible approach for meeting environmental standards implies that some firms will reduce pollution by more than the average and some by less. This, apparently, was intolerable: firms cannot be doing their "best" unless they are all above average.

Congress is now working on a law of its own in response to the president's bill. The need to satisfy both environmentalists like Mr. Waxman and auto state legislators like Rep. John Dingell (D., Mich.) is producing a dangerously rigid compromise, as can be seen from the congressional adoption of two sets of virtually identical controls to prevent the fumes from gas pumps from entering the atmosphere. The administration proposed a vapor control system on nozzles at the pumps because it would be less expensive to install. Congress agreed—and then required a vapor control system to be installed inside cars as well. A recent study reveals that adding onboard systems after the pump vapor controls are

in place would actually increase emissions!

Some flexibility may yet be retained in meeting acid rain goals. But even here, individual Congressmen have taken out the howitzers. The assault rests on the faulty proposition that markets do not work. Critics of the president's proposal fall into two camps: 1. Those who argue the market won't work because they don't like the ambitious targets set forth in the administration bill; and 2. those who believe electric utilities, the principal source of acid rain emissions, will hoard emission permits to preserve future growth opportunities. Such hoarding, it is argued, will impede growth in this vital sector of the economy.

The Council of Economic Advisers has pointed out that such hoarding is unlikely because a robust market in trading permits for sulfur dioxide emissions will emerge. If the council turns out to be wrong, there is a simple safeguard that would insure that new plants could purchase emission permits: Have the government retain and sell a small fraction of the permits to all interested buyers or those buyers planning to increase capacity. The proceeds of the auction could go to the government, or could be distributed on a pro-rata basis to existing permit owners.

As Congress engages in the unseemly business of making sure that special interests are satisfied, the president's two innovative environmental reforms could easily disappear, or be gutted. Be assured that the environmentalists and powerful industry lobbies will get their slice. The danger is that in the process, Congress will eliminate the foundation on which the president's reforms rest—"harnessing the power of the marketplace" to meet both environmental and economic needs.

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